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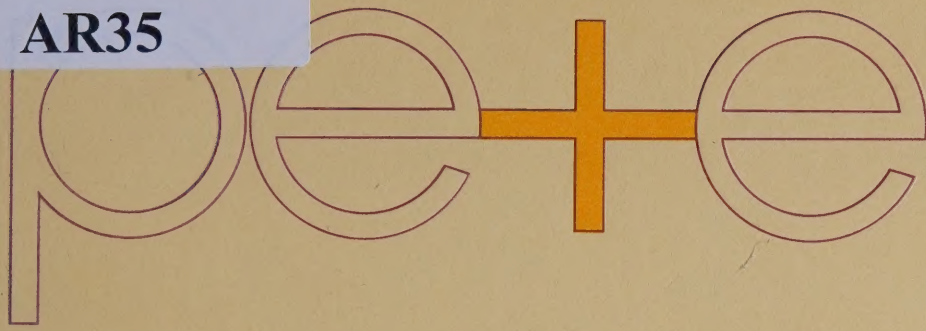


Photo
Engravers
&
Electrotypers
Limited

Annual
Report
1978

Photo Engravers & Electrotypers Limited

Directors and Officers

J. R. SHAW, *President*

JAMES M. TORY, Q.C., *Vice-President*

ALEX CAMPBELL

JOHN S. DINNICK

GORDON R. GILLIES

DOUGLAS J. PEACHER

M. J. STEEVES, P.Eng., *Vice-President, Manufacturing*

D. S. PORTER, C.A., *Vice-President, Finance & Secretary-Treasurer*

AUDITORS, *Clarkson, Gordon & Co.*

SOLICITORS, *Tory, Tory, DesLauriers & Binnington*

BANKER, *The Bank of Nova Scotia*

TRANSFER AGENT, *National Trust Company, Limited*

REGISTRAR, *Crown Trust Company*

HEAD OFFICE and PLANT, 2250 Islington Ave., Rexdale, Ontario M9W 3W4

Photo Engravers & Electrotypers Limited

Financial Highlights

EARNINGS	1978	1977
Sales - - - - -	\$18,071,291	\$17,385,899
Depreciation - - - - -	740,609	745,626
Income taxes - - - - -	682,000	645,000
Net earnings - - - - -	1,022,954	994,577
Net earnings per share - - - - -	5.58	5.47
Dividends paid - - - - -	429,166	398,252
Dividends paid per share - - - - -	2.36	2.19
<hr/>		
BALANCE SHEET		
Additions to fixed assets - - - - -	\$ 2,893,629	\$ 443,332
Shareholders' equity - - - - -	7,535,799	6,642,811
Shareholders' equity per share - - - -	39.53	36.53
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Photo Engravers & Electrotypers Limited

Directors' Report to the Shareholders

Your directors are pleased to submit the annual report of the Company for 1978, together with the financial statements and accompanying auditors' report.

SALES AND EARNINGS In 1978, sales amounted to \$18,071,291 compared with \$17,385,899 in 1977. After meeting all charges, including a provision of \$740,609 for depreciation of plant and equipment, and a provision of \$682,000 for income taxes, there remained earnings of \$1,022,954 or \$5.58 per share compared with \$994,577 or \$5.47 per share for the previous year.

The increase in earnings this year reflects the marginal increase in sales which we experienced in 1978 as compared with 1977. For both the 1978 and 1977 years, earnings reflect income tax reductions for the inventory allowance provided by the federal and provincial governments.

DIVIDENDS Quarterly dividends of 57 cents per share were paid March 1, June 1 and September 1, 1978 while a quarterly dividend of 65 cents per share was paid December 1, 1978, making a total distribution to shareholders of \$2.36 per share or \$429,166 for the year compared with a total payment of \$2.19 per share or \$398,252 in 1977. Your directors again declared a dividend of 65 cents per share for the first quarter of 1979.

PLANT EXPANSION AND FINANCING ARRANGEMENTS Our current expansion programme for the purchase of additional printing press equipment and an extension to the present building originally estimated to cost approximately \$10,400,000 plus interest is now expected to cost \$11,500,000 plus interest on funds borrowed and be completed by mid-1980. A substantial portion of this increase is attributable to the

devalued Canadian dollar. At December 31, 1978 commitments under this programme amounted to \$8,203,000 of which \$2,845,652 had been expended to that date.

A line of credit has been arranged with the Company's Banker to provide funds not available from operations for this programme. At December 31, 1978, approximately \$1,000,000 of this line of credit had been utilized.

EARNINGS EMPLOYED IN THE BUSINESS As at December 31, 1978 earnings employed in the business amounted to \$6,342,070 compared to \$5,748,282 last year.

SHAREHOLDERS' EQUITY Total shareholders' equity amounted to \$7,535,799 equal to \$39.53 per share, compared with \$6,642,811 or \$36.53 per share a year ago. During the year, 8,800 shares were issued under the Employees' Stock Purchase Plan.

ANTI-INFLATION ACT The Company was subject to and was in compliance with the terms and provisions of the Act which had effect from October 14, 1975 to December 31, 1978.

We expect some increase in sales during 1979 as compared with 1978 but this increase will not be significant as the plant is operating virtually at capacity until completion of the current expansion programme.

We extend sincere appreciation to our employees who contributed so much to the high standards of quality and service to our customers.

On behalf of the Board,


President.

Toronto, Canada,
January 30, 1979.

Photo Engravers &

(Incorporated under the

BALANCE

December

(with comparative figures)

ASSETS

	1978	1977
CURRENT:		
Cash - - - - -	\$ 36,263	\$ 463,305
Accounts receivable and other assets - - - - -	417,199	533,667
Inventories (note 2) - - - - -	1,283,536	1,250,127
	<u>1,736,998</u>	<u>2,247,099</u>
FIXED—at cost:		
Land and roadways - - - - -	171,963	171,963
Buildings - - - - -	4,573,488	4,612,941
Machinery and equipment - - - - -	11,887,027	11,571,137
	<u>16,632,478</u>	<u>16,356,041</u>
Less accumulated depreciation - - - - -	8,917,032	8,199,861
	<u>7,715,446</u>	<u>8,156,180</u>
Expansion programme in progress (note 3) - - - - -	2,845,652	252,063
	<u>10,561,098</u>	<u>8,408,243</u>
NON-CURRENT:		
Notes due under Employees' Stock		
Purchase Plan (note 5) - - - - -	291,159	32,818
	<u>\$12,589,255</u>	<u>\$10,688,160</u>

(See accompanying notes)

On behalf of the Board:

J. R. SHAW, *Director*

J. M. TORY, *Director*

Electrotypers Limited

(a corporation of the Province of Ontario under the Ontario Corporations Act)

BALANCE SHEET

as at December 31, 1978

(as at December 31, 1977)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1978	1977
CURRENT:		
Accounts payable and accrued charges - - - - -	\$ 910,407	\$ 859,208
Accounts payable for expansion programme - - - - -	466,235	
Income and other taxes payable - - - - -	343,404	844,141
	<u>1,720,046</u>	<u>1,703,349</u>
TERM BANK LOANS (note 4) - - - - -	991,410	
DEFERRED INCOME TAXES - - - - -	2,342,000	2,342,000
	<u>5,053,456</u>	<u>4,045,349</u>
SHAREHOLDERS' EQUITY:		
Capital stock—		
Authorized:		
250,000 shares, no par value		
Issued:		
190,650 shares (1977—181,850 shares) (note 5) - - -	1,193,729	894,529
Earnings employed in the business - - - - -	6,342,070	5,748,282
	<u>7,535,799</u>	<u>6,642,811</u>
	<u>\$12,589,255</u>	<u>\$10,688,160</u>

(financial statements)

Auditors' Report

To the Shareholders of
PHOTO ENGRAVERS & ELECTROTYPERS LIMITED:

We have examined the balance sheet of Photo Engravers & Electrotypers Limited as at December 31, 1978 and the statements of earnings and earnings employed in the business and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
January 15, 1979.

Clarkson, Gordon & Co.
Chartered Accountants

Photo Engravers & Electrotypers Limited

Statement of Earnings and Earnings Employed in the Business

Year Ended December 31, 1978

(with comparative figures for the year 1977)

	1978	1977
SALES (note 7)- - - - -	\$18,071,291	\$17,385,899
COST OF SALES and all expenses, except the items noted below - -	14,947,506	14,345,949
Administrative and general expenses - - - - -	654,269	577,865
Provision for depreciation - - - - -	740,609	745,626
Interest expense on term bank loan (note 4) - - - - -		6,879
Interest expense on current bank loan - - - - -	23,953	70,003
	16,366,337	15,746,322
EARNINGS BEFORE PROVISION FOR INCOME TAXES - - - - -	1,704,954	1,639,577
Provision for income taxes (note 8) - - - - -	682,000	645,000
EARNINGS FOR THE YEAR* - - - - -	1,022,954	994,577
EARNINGS EMPLOYED IN BUSINESS, BEGINNING OF YEAR - - -	5,748,282	5,151,957
	6,771,236	6,146,534
Less dividends paid (1978—\$2.36 per share; 1977—\$2.19 per share)	429,166	398,252
EARNINGS EMPLOYED IN BUSINESS, END OF YEAR- - - - -	\$ 6,342,070	\$ 5,748,282
*EARNINGS PER SHARE - - - - -	\$5.58	\$5.47

(See accompanying notes to financial statements)

Photo Engravers & Electrotypers Limited

Statement of Changes in Financial Position

Year Ended December 31, 1978

(with comparative figures for the year 1977)

WORKING CAPITAL WAS PROVIDED BY:	1978	1977
Operations* - - - - -	\$1,763,563	\$1,683,443
Proceeds from sale of fixed assets - - - - -	164	12,457
Repayment of notes due under Employees' Stock Purchase Plans -	40,860	10,940
Increase in term bank loans - - - - -	991,410	
Shares issued under Employees' Stock Purchase Plan - - - - - 299,200		
Less notes received in consideration therefor (note 5) - - - - - 299,200	—	
Reclassification, from current to deferred, of income taxes provided in prior years - - - - -		30,000
	<u>2,795,997</u>	<u>1,736,840</u>
WORKING CAPITAL WAS USED FOR:		
Additions to fixed assets (net of investment tax credit of \$75,741 in 1978; \$4,810 in 1977) - -	2,893,629	443,332
Reduction in term bank loan - - - - -		150,000
Dividends - - - - -	429,166	398,252
	<u>3,322,795</u>	<u>991,584</u>
INCREASE (DECREASE) IN WORKING CAPITAL- - - - -	(526,798)	745,256
WORKING CAPITAL (DEFICIENCY), BEGINNING OF YEAR - - - -	543,750	(201,506)
WORKING CAPITAL, END OF YEAR- - - - -	<u>\$ 16,952</u>	<u>\$ 543,750</u>
CHANGES IN COMPONENTS OF WORKING CAPITAL:		
Increase (decrease) in current assets—		
Cash - - - - -	\$ (427,042)	\$ 414,107
Accounts receivable and other assets - - - - -	(116,468)	63,919
Inventories - - - - -	33,409	5,799
Increase (decrease) in current liabilities—	(510,101)	483,825
Accounts payable and accrued charges - - - - -	51,199	(146,532)
Accounts payable for expansion programme - - - - -	466,235	
Income and other taxes payable - - - - -	(500,737)	385,101
Portion of term bank loan due within one year - - - - -		(500,000)
	<u>16,697</u>	<u>(261,431)</u>
INCREASE (DECREASE) IN WORKING CAPITAL- - - - -	<u>\$ (526,798)</u>	<u>\$ 745,256</u>

*Net earnings adjusted for charges or credits which do not affect working capital.

(See accompanying notes to financial statements)

Photo Engravers & Electrotypers Limited

Notes to Financial Statements

December 31, 1978

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company have been prepared by management in accordance with generally accepted accounting principles consistently applied. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgement and in light of information available up to January 15, 1979. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Inventories—

Inventories of work in process are valued at the lower of cost, less progress advances received, and net realizable value. Other inventories are valued at the lower of cost, applied on a first-in, first-out basis, and market value determined on the basis of replacement cost.

Depreciation—

Charges are made against earnings for depreciation of investment in buildings, machinery and equipment based on the estimated remaining useful lives of the assets using the straight-line method. The rates of depreciation are generally 2½% for buildings and roadways and 6¾% for machinery and equipment.

Income taxes—

The Company provides for income taxes on the tax allocation basis whereby the provision for income taxes each year is computed on the basis of the depreciation and other charges reflected in the statement of earnings rather than the related amounts claimed as deductions in the Company's tax return.

2. INVENTORIES

Inventories consist of the following:

	1978	1977
Work in process (less progress advances of \$2,190,000 in 1978 and \$2,004,000 in 1977) - - - - -	\$1,015,729	\$1,020,219
Other materials and supplies- - - - -	267,807	229,908
	<u>\$1,283,536</u>	<u>\$1,250,127</u>

3. EXPANSION PROGRAMME

In October 1977, the directors authorized an expansion programme which includes the purchase of additional press equipment and the expansion of the present building. This expansion programme is estimated to cost approximately \$11,500,000 and is expected to be completed by mid-1980. At December 31, 1978, commitments under this programme amounted to \$8,203,000 of which \$2,845,652 had been expended to that date.

A line of credit has been arranged with the bank to provide funds not available from operations to meet these expenditures (note 4).

4. TERM BANK LOANS

The term bank loans for the expansion programme bear interest at varying rates not expected to exceed in aggregate the commercial bank prime rate by more than one percentage point and are repayable over five years commencing in 1980. These loans are evidenced by bankers' acceptances and demand notes and the Company has undertaken not to pledge or otherwise encumber any of its assets while any portion of the loans is outstanding. During construction the interest on this debt (\$19,922 in 1978) has been added to the cost of the expansion programme.

5. EMPLOYEES' STOCK PURCHASE PLANS

In 1978, officers and senior management of the Company, one of whom is a full-time salaried director, subscribed for and purchased an aggregate of 8,800 shares of the Company under an Employees' Stock Purchase Plan. The shares were issued at \$34.00 per share, the current market price on the day prior to the subscription date, for a total consideration of \$299,200. This consideration was received in the form of promissory notes which, as with notes outstanding under a similar plan established in 1971, are non-interest bearing and are secured by a pledge of shares of the Company. The notes are due in equal annual instalments over ten years from the date of issue.

At December 31, 1978, the notes outstanding amounted to \$332,019 (\$43,758 in 1977) of which the portion due within one year (\$40,860 in 1978; \$10,940 in 1977) is included with accounts receivable and other assets.

6. PENSION PLANS

The majority of the Company's employees are covered by retirement plans. The amount charged to income in 1978 (including amounts paid to the government pension plan) was \$265,700 (\$239,600 in 1977), which amounts included amortization of prior service costs. Based on an actuarial valuation as at December 31, 1977, the unfunded prior service pension costs at December 31, 1978 were estimated to total \$217,000 (\$228,000 in 1977) (approximately equal to the value of the unfunded vested benefits at that date) and these will be charged to operations on a straight-line basis over the next fourteen years.

7. SALES TO MAJOR CUSTOMER

Approximately three-quarters of the Company's sales are made to Simpsons-Sears Limited pursuant to a long-term contract extending through 1983.

8. INCOME TAXES

The provision for income taxes consists of:

	1978	1977
Current - - - - -	\$682,000	\$709,000
Deferred - - - - -		(64,000)
	<u>\$682,000</u>	<u>\$645,000</u>

The 1978 provision reflects a reduction of \$41,800 for the 3% inventory allowance (\$38,600 in 1977).

9. REMUNERATION OF DIRECTORS AND OFFICERS

The aggregate remuneration in 1978 of the Company's six directors, as directors, was \$5,200 (\$5,000 in 1977). The aggregate remuneration in 1978 of the Company's four officers, as officers, was \$153,600 (\$121,500 in 1977—three officers). Two directors were also officers of the Company during 1978.

10. ANTI-INFLATION PROGRAM

Under the federal government's anti-inflation program (which continued in force until December 31, 1978) the Company was subject to mandatory compliance with legislation which controls prices, profit margins, employee compensation and shareholder dividends. Management is of the opinion that the Company was in compliance with the requirements of the anti-inflation legislation.

Photo Engravers & Electrotypers Limited

Ten Years' Review

Earnings

Year	Sales	Provision for Depreciation	Earnings Before Income Taxes	Net Earnings	Net Earnings Per Share	Dividends Per Share
1969	\$ 7,347,776	\$501,444	\$ 691,336	\$ 323,736	\$1.85	\$.86
1970	8,228,668	486,597	690,195	327,195	1.87	.92
1971	8,461,994	504,362	834,293	422,793	2.35	.97
1972	8,748,533	507,528	849,639	443,639	2.44	1.12
1973	10,335,867	533,012	1,026,926	587,926	3.23	1.20
1974	13,953,318	642,619	1,398,973	815,973	4.49	1.60
1975	14,333,811	649,901	1,435,793	840,793	4.62	2.00
1976	14,150,930	625,006	1,284,674	745,674	4.10	2.04
1977	17,385,899	745,626	1,639,577	994,577	5.47	2.19
1978	18,071,291	740,609	1,704,954	1,022,954	5.58	2.36

Balance Sheet

Year	Working Capital (Deficiency)	Plant and Equipment at Cost	Plant and Equipment After Depreciation	Term Bank Loans	Shareholders' Equity	Shareholders' Equity Per Share
1969	\$(539,181)	\$10,633,676	\$ 6,399,648	\$1,144,000	\$3,532,813	\$20.19
1970	(991,492)	12,068,972	7,435,020	1,410,000	3,699,008	21.14
1971	(859,653)	12,261,782	7,131,953	920,000	4,060,007	22.33
1972	(479,522)	12,800,280	7,172,788	1,000,000	4,299,974	23.65
1973	(954,589)	14,710,330	9,042,960	1,650,000	4,669,680	25.68
1974	(212,940)	14,911,097	8,631,722	1,150,000	5,194,693	28.57
1975	(332,493)	15,754,564	8,837,582	650,000	5,671,786	31.19
1976	(201,506)	16,233,412	8,730,234	150,000	6,046,486	33.25
1977	543,750	16,608,104	8,408,243		6,642,811	36.53
1978	16,952	19,478,130	10,561,098	991,410	7,535,799	39.53



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